

U S WEST, Inc.
Suite 700
1020 Nineteenth Street, NW
Washington, DC 20036
202 429-3131
FAX 202 296-5157

BB Nugent
Executive Director
Federal Regulatory

USWEST

EX PARTE OR LATE FILED

WRITTEN EX PARTE

RECEIVED

APR 21 1998

FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

April 21, 1998

Ms. Magalie Roman Salas
Secretary
Federal Communications Commission
1919 M Street, NW, Room 222, SC-1170
Washington, DC 20554

RE: CC Docket No. 97-250, Direct Case

Dear Ms. Salas:

The attached information was provided today to Mr. Richard Kwiatkowski of the Competitive Pricing Division, at his request. In accordance with Commission Rule 1.1206(a)(1), an original and one copy of this letter and attachment are being filed with your office for inclusion in the public record.

Acknowledgment and date of receipt of this submission are requested. A duplicate of this transmittal letter is provided for this purpose.

Please call if you have any questions.

Sincerely,
BB Nugent

Attachment

cc: Mr. Richard Kwiatkowski

of Copies rec'd
EX CODE

001

U S WEST, Inc.
Suite 700
1020 Nineteenth Street, NW
Washington, DC 20036
202 429-3131
FAX 202 296-5157



BB Nugent
Executive Director
Federal Regulatory

April 21, 1998

Mr. Richard Kwiatkowski
Competitive Pricing Division
Federal Communications Commission
1919 M Street, NW, Room 518-H
Washington, DC 20554

RE: CC Docket No. 97-250, Direct Case

Dear Mr. Kwiatkowski:

In response to your request, U S WEST is providing the following answers to your questions in connection with the above-referenced docket:

The Interconnection Charge (TIC) was instituted as a consequence of the Local Transport Restructure Order. In that Order, the equal charge per minute of use structure for recovering the costs of transporting calls between an IXC's POP and the appropriate end office was changed to more closely reflect the actual cost of transporting such a call. Since calls were routed via two means, at the customer's discretion, the structure was set up to reflect that routing. First, an Entrance Facility (EF) rate element was instituted to cover the transport from the customer's POP to its Serving Wire Center (SWC). Because this was a dedicated facility, it was a monthly flat-rated charge. For customers that routed their calls direct to the end office (EO), a Direct Trunk Transport rate element was instituted to recover the cost of transport between the SWC and the EO. Because these facilities were dedicated to the particular customer, DTT was charged as a monthly, flat-rate based on distance between the SWC and the EO. For customers that chose to route their calls through one of USWC's tandem, two new rate elements were instituted: Tandem Transmission to cover the cost of transport between the SWC and the EO via the Tandem and Tandem Switching to cover the cost of actually switching the call through the tandem. The Tandem Transmission charge was a minutes of use (MOU) charge based on mileage measured from SWC to EO. The Tandem Switching charge was a straight MOU charge.

The FCC required the EF and DTT rate elements to be based on existing special access rates. It required the Tandem Transmission rates to be based on special access rates adjusted into a minute of use rate based on the assumption that 9000 MOUs rode each common circuit. By Order, the Tandem Switching rate was

set using 20% of the tandem switching revenue requirement divided by the total tandem switching MOUs. This was merely a device to set what the FCC found to be a reasonable rate that would place rates closer to costs while not putting smaller carriers, the ones most likely to use tandem routing, out of business. The FCC would, then, increase the tandem switching charge over the years in order to give the smaller carriers time to adjust to the new structure.

The Local Transport category in the Traffic Sensitive basket, prior to LTR, included various rate elements – numerous local transport rate elements and other elements such as STP ports and LIDB queries. Only the local transport elements were restructured as a consequence of the LTR Order. The LTR Order implementation was to be merely a restructure (i.e., revenue neutral). Because various devices (special access rates, percents of revenue requirements, etc.) were used in determining the charges for the new rate elements and because the revenues that would have been generated by the new rate elements would not have equaled the revenue generated by the old rate elements, the FCC instituted an Interconnection Charge (TIC). This charge was to guarantee that the new structure would generate revenues equal to the revenues generated by the old Local Transport category. This rate element was to be charged on an MOU basis. The revenues to be generated were equal to the revenues generated by the local transport elements prior to LTR restructure minus the revenues generated by the new rate elements (EF, DTT, Tandem Transmission and Tandem Switching). Consequently, even though the FCC used words like 80% of the tandem revenue requirement flows into the TIC, the reality was that the TIC was a device to recover any revenues not recovered in the other new rate elements.

In its Access Reform Order, the FCC is trying to align rates more closely with the costs that they are meant to recover. Therefore, the Order requires LECs to determine the costs being recovered in the TIC that are actually attributable to other rate elements. One of those costs is tandem switching. While the ARMIS tandem switching revenue requirement is based on all costs at the tandem including SS7 costs and these costs were used in calculating the original tandem switching rate, in fact all tandem SS7 costs are not recovered in the TIC. A portion of that revenue requirement is recovered through contract rates and a portion is recovered through the tariffed STP port charge. In order to calculate a proper amount to be recovered in the tandem switching rate as of January 1, 1998, USWC excluded the costs of SS7 from the tandem switching revenue requirement because they are now to be recovered in the Local Switching category of the Traffic Sensitive basket. In addition, USWC excluded from the SS7 tandem switching revenue requirement, the SS7 costs already being recovered via contract and via the tariffed STP port rate element. If these were included in the amount moved to the Local Switching category of the Traffic Sensitive basket, the Local Switching category would be recovering costs that are already being recovered in contract rates and in the STP port charge. Because

Access Reform is also a revenue neutral restructure of rates, this would result in over recovery in Local Switching rates and under recovery in the TIC.

Direct Case:

Referring to our 2/27 filing, page 15, first full paragraph:

1. Explain what "STP capacity leased to other carriers" means.

STP capacity leased to other carriers is the portion of the signal transport point (STP) and STP ports that are provided under interconnection agreement (contract) to other local exchange carriers (LECs) in U S WEST's region. These LECs do not provide their own CCSAC capability but, instead, contract with USWC to use USWC's CCSAC capability in their provision of service. USWC's total tandem SS7-STP costs include the portion of the STP and STP ports sold under contract to other LECs and those sold under tariff to IXCs.

- a. What part of the network is leased? Is it STP ports or equipment other than ports?

Numerous network elements are sold (leased) to other LECs under contract rather than under tariff. With respect to this filing and the first full paragraph on page 15 of the USWC Direct Case filed February 27, 1998, the only elements of concern are STP ports and the STP itself. STP ports are dedicated to individual customers and to USWC while the STP itself is shared by USWC and its various customers. The STP port charge in USWC's CCSAC tariff recovers the cost of the STP port and a portion of the cost of the STP.

2. Why were the costs a part of tandem switch revenue requirement that flowed into the original TIC?

The Local Transport Restructure (LTR) Order at ¶ 25 addresses this issue. Because approximately 10% of the tandem switch revenue requirement was attributed to SS7 costs at that time (which could be used for call set-up for both tandem switched and direct trunked calls) and because the FCC was only requiring that 20% of the tandem switch revenue requirement be recovered in the tandem switching rate element, the 80% of the tandem switch revenue requirement flowed into the TIC also included costs attributed to SS7. The rationale was that all switched access customers, both those using Tandem Switched Transport and those using Direct Trunk

Transport, pay the TIC charge and would appropriately pay their fair share of SS7 costs.

3. Explain what "STP costs associated with USW IES CCSAC tariff" means.

a. Are they STP port costs?

Yes – and an associated portion of the actual STP.

b. Why would STP costs have been part of tandem switch revenue requirement that flowed into the original TIC?

Because STP and STP port costs that reside at the tandem switch were automatically included in the revenue requirement that flowed into the TIC based on the requirements in the LTR order.

c. If some/all of these STP costs are STP port costs, aren't they the same as STP port costs recovered from the separate STP port termination rate elements?

Some of them are. The portion sold via CCSAC tariff to customers are recovered in those rate elements. The portion sold via contract are recovered in the rates charged in those agreements. Only the remaining SS7 costs (STP ports and associated STP capacity at the tandem) are really being recovered in the TIC or in Tandem Switching. Revenues remaining in the TIC, prior to the January 1, 1998 filing, actually include SS7 recovery of any SS7 costs not recovered already via contract or tariff. The additional TIC revenues are revenues based on the fact that the TIC was used to keep the LTR filing revenue neutral. Consequently, it made no difference in the size of the TIC as to whether the original tandem switching revenue requirement included or excluded SS7 costs. (If the contract/tariffed SS7 recovery was excluded, a smaller tandem switching revenue requirement figure would have flowed into the TIC but since the TIC was used to make the entire filing revenue neutral, a larger number would have been attributed to the "other" category that couldn't be explicitly attributed to particular costs, such as tandem switching or SS7.)

d. If so, why would they have flowed into the original TIC?

Only because the LTR Order set up the calculations in a way that included them. As stated above, ¶ 25 of the LTR Order explains the

Mr. Richard Kwiatkowski
April 21, 1998
Page 5

rationale. The basic understanding that is needed here is that LTR was a revenue neutral filing. The revenues to be recovered before the filing were the same as the revenues to be recovered after completion of the filing. They were merely reallocated to different rate elements and baskets. The tandem revenue requirement was used as a surrogate to set up a tandem switching rate element. It was not fine-tuned to be sure that only the tandem switching revenue requirement that was not already being recovered elsewhere (in contracts and tariffed charges) was included in that total revenue requirement. What USWC is doing in this filing is fine-tuning that calculation to be sure that the tandem switching revenue requirement includes only revenues attributable to actual tandem switching. Because the original tandem switching revenue requirement used in the LTR calculations included SS7 costs and had not been adjusted for contracted and tariffed SS7 elements, the number was artificially inflated.

4. When were contract rates for leased STP capacity first established?

The earliest contract we have in our records is December 7, 1994.

5. When were STP tariffed rates first established in the USWC IES CCSAC tariff?

January 1, 1992 in Tariff Transmittal Nos. 203, 216, and 219.

If you have any further questions regarding this information, please feel free to call me.

Sincerely,
SB Nugent